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# Montana Grain Growers Convention

Max S. Baucus

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Senator \* or Department\*: **BAUCUS**

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(1) Subject\*: **Agriculture**

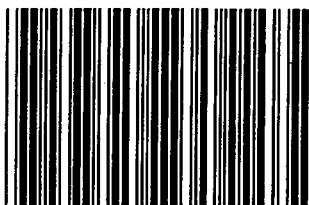
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(2) Subject\* **Montana Grain Growers Convention**

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BAUCUS

STATEMENT OF SENATOR BAUCUS

MONTANA GRAIN GROWERS CONVENTION

Thank you Bud. I am very happy to be here this afternoon. [Evening?]

Over the last two days , you've been discussing the farm problem, and I know you're looking for solutions. Today I'd like to propose a couple of solutions that I will be introducing when Congress reconvenes in January. But first let me tell you my view the problem.

THE AGRICULTURAL PROBLEM IS A TRADE PROBLEM

As I see it, our agriculture crisis is a trade crisis. The simple fact is that the health of American agriculture is directly linked to the trade. Consider a few facts.

In 1980, the U.S. sold \$44 billion worth of wheat and feed grains to foreign customers; more

than 55% of the grain sold on world markets came from the U.S.

At that time of booming U.S. trade, the farm economy was in its best shape since WW II. Government support to farmers totaled only about \$4 billion--a drop in the bucket by today's standards.

Today--just six years later--our volume of trade has plummeted. This year, the U.S. exported only about \$24 billion worth of wheat and feed grains--a drop of \$20 billion from the 1980 level. The U.S. share of the world market has shrunk from 55% to less than 40%.

Farm debt has risen to a record \$212 billion, with more than \$100 billion in serious danger of default. One-half of all farmers are actually losing money on their farm operations.

The combination of these financial strains are now driving 100 farmers out of business every day. All this is happening even though the cost

of farm supports has increased to more than \$26 billion.

It is no coincidence that between 1980 and 1986 the U.S. lost more than \$20 billion in export sales and increased government support to farmers by almost exactly the same amount.

The U.S. farm economy depends on exports. If foreign trade in agricultural products is going well, the farm economy will do well. If foreign trade slumps, the farm economy slumps. It is just that simple.

#### THE TOUGH TRADING ENVIRONMENT

If we're going to meet the trade challenge, we have to be honest about the trading world that exists out there. We face tough competitors who are willing to steal markets from the U.S.

Look around the world. The EEC spent a total of \$80 billion subsidizing agriculture last year.

Over a period of seven years, this huge subsidy transformed one of the most inefficient agricultural sectors in the world--one troubled with poor climate and poorly structured farms--into the world's second largest agricultural exporter, behind only the U.S. But this situation will not last long; this year the EEC is expected to pass the U.S. to become the world's number one agricultural exporter.

Canada has been pirating U.S. markets. The Canadians wag their finger at the U.S. for its farm support program, while Canadian grain for export is sold at half its cost of production--I am quoting the Canadian Wheat Board's own prices here, not some American critic. This is given on top of the huge rail transportation subsidies given to Canadian farmers by the Canadian government, subsidies valued as high as \$1 a bushel.

There is no doubt about it. It's a very tough world out there. We must meet that challenge with even greater toughness.

THE FAILURE OF AMERICAN POLICIES

Past American policies have not helped us meet the challenge of foreign competitors.

If farmers are going to get back on their feet, the government needs to help them develop the world market. The farmer should by rights be able to depend on the market for his income, not the government.

But one inept policy after another has forced the farmer to depend on the government for his income and has forced him to let the government interfere in his business decisions.

In past years, we structured the loan program so that, instead of meeting the lower world price for grain when prices fell, the U.S. put grain into storage. The loan program that was meant to insure income to U.S. farmers ends up ensuring an income to our foreign competitors.

If the government helped the farmer sell his crops, instead of paying him not to produce, the farm crisis could be solved and the farmer could

go back to depending on the free market--not the government.

Nothing makes me sadder than to look at the current farm program. The government ends up paying farmers \$26 billion a year.

What does this \$26 billion buy the farmer? Well, on the bright side, it keeps some farmers heads above water for another year.

But it also makes farmers a scapegoat. City people wonder why the government is paying farmers so much money when we are trying to cut budget deficits.

Worst of all, that \$26 billion really only buys an assurance that the government will have to pay farmers more the next year. The payments give farmers no hope of things ever really getting better.

We are not investing this money in a better future, we are just spending it.



WE ARE AT A CROSSROADS

Faced with a dwindling share of world markets and increasingly tough competitors, some have suggested that we should give up the game. They suggest that we should restrict our production, block all agricultural imports into the U.S., forfeit our export markets and just produce for the American market or at least sell only those exports we can move with subsidized sales. But if we erect high trade barriers and make our grain more expensive, even subsidized grain will probably be impossible to sell.

In other words, these people think we should give up as competitors in the world market and try to orient agriculture toward just producing for the American market.

I think there is another option: competing. We need to get out there and compete more aggressively than the other guy and reclaim our share of world markets.

In other words, I think there is a choice between retreating into our shell and admitting defeat and meeting the challenge of competition.

I believe we are at a crossroads. And the choice we make today is likely to affect the shape of American agriculture for years to come.

In my mind, there is no choice. If we crawl into our shell, U.S. agricultural production would plunge by almost 50 %. We can only prosper by increasing our sales on the world market. As I said earlier, international trade is critical to the health of American agriculture.

We must compete.

#### THE BAUCUS PLAN

I plan to introduce legislation at the beginning of the next session of Congress to implement my plan to promote agricultural exports.

The two main planks of this plan are a full marketing loan for wheat and feed grains and a system of bonuses to reward the best U.S. customers abroad.

As most of you know, a marketing loan is a variation of the current loan system that allows farmers to sell their grain on the market, even if the unfair trade practices of others have temporarily depressed the market. Under a marketing loan, when market prices drop below the loan rate, the farmer sells his grain and pays off his loan in full at the market value of his crop, whatever that is.

Under this scheme, grain is used to establish U.S. markets instead of rotting in storage.

Unfortunately, there is no free lunch in the days of Gramm-Rudman. I am working with your national and state leadership to develop a variety of cost-cutting measures to pay for this plan. The specifics of the cuts may change, but I am committed to a revenue neutral package.

The second element of this plan would give bonuses to reward those nations that are buying increased quantities of grain from the U.S. Currently, we are offering similar bonuses, but only to those customers we have already lost to the EEC; in other words, we are rewarding our worst customers not our best.

It's simple, as any good businessman knows, you reward your best customers not your worst customers. The same logic makes sense in international trade.

Taken together, these measures will make the U.S. competitive in the world agricultural market. The U.S. will stop putting up a target for other exporters to undersell.

The world price can begin to work back to being a fair reflection of the cost of production once we can reclaim our share of the market.

The next decades big markets for grain are in North Africa, Turkey and other places that may not mean much now, but they will be the customers

Montana farmers will depend on in five or ten years.

#### FUTURE NEGOTIATIONS

Ultimately, I think every nation in the world would benefit from a freer world market for agricultural goods. Given the large U.S. comparative advantage in agriculture, we ultimately would benefit more than other nations from a free market. But we can't get a free market by giving up our subsidies unilaterally anymore than we can get worldwide nuclear disarmament by destroying only our own weapons.

When other nations are willing to come to a world summit and negotiate an end to export subsidies, I believe we should be willing to put our export promotion program on the table.

But until that day, the U.S. needs to be ready to compete and compete aggressively.

#### CLOSING

You are all businessmen out there--successful businessmen or you wouldn't have survived this long. You understand that to succeed in business you need to make investments in your operation and take some calculated risks.

The same reasoning makes sense on the international front. We need to start investing the dollars going to farm supports, not just spending them. Anyone can throw money at a problem, but the farm crisis will not be solved until we start spending our dollars wisely. We must invest in the future to get the farm economy back on track. I believe that spending money on marketing loans is the best way to invest our farm dollars wisely.

I think government policy has led agriculture astray for years. We need to start leading agriculture in the right direction--we need to go out into the world and capitalize on our strengths, not hide and wait for things to get better by themselves. I think that this proposal can bring a better future for agriculture in Montana.